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The selection of a topic for a talk before this body was somewhat perplexing, but after I arrived at Old Point Comfort and renewed acquaintanceship with so many of my old friends a topic seemed to suggest itself.

I am speaking tonight before those who properly may be regarded as the key-bankers of America. When I speak of key-bankers, my mind reaches somewhat beyond the traditional money making banker - to the banker who, while keeping his own house in order, has been compelled, because of the actions of his neighbor - his customers - his correspondent - or the unusual conditions that, at intervals develop in banking, commerce, agriculture, and other industries, to forget, on occasions, the question of immediate profits to use his resources and efforts towards adjusting situations that have not been of his making. Realizing how many of this type are in this audience, and knowing that I can speak to you with frankness and without feeling that you will carry away the impression that I am lecturing or sermonizing, I shall pass on to you some observations that are suggested by my experiences in the Reserve System.

Events of last autumn are still close enough to be fresh in our minds and yet they are now distant enough to make it possible to appraise them and to draw lessons from them for our future guidance. During the market break and the disorganized conditions that prevailed in the last week of October and the first half of November, the great commercial banks and the Federal reserve system acted in a manner of which we have just cause to be proud. An unprecedented drop in security prices and a gigantic withdrawal of funds from the market by out-of-town and nonbanking lenders occurred, and the member banks stepped in courageously and promptly to take over the burden occasioned by these withdrawals, while the Federal reserve system stood by the banks, both by discounting paper freely and by placing large sums in the market through the purchase of securities. A panic and a collapse of our credit machinery was averted.

Not only did our banking system rise to the occasion when panic threatened, but the key member banks showed foresight in preparing for this possible development by putting their house in order many months in advance through using their influence to curb the growth in the volume of credit used in the security market. Brokers' loans and total security loans of New York City banks in the middle of last October were actually smaller than a year earlier, and their ability to take care of the situation was in no small measure due to the fact that they had refrained from participation in the enormous growth of security loans that occurred in 1928 and 1929, notwithstanding the attractiveness of the returns and the essential safety of the loans. The Federal reserve system, for its part, pursued for two years a policy of firm money, expressed in higher rates, in sales in the open market, and in exerting its influence against improper uses of Federal reserve facilities.

We can, therefore, congratulate ourselves on at least a part of our activity during the period preceding the market break, during the break itself, and the subsequent readjustment. And yet there is food for serious thought in the fact that, under our excellent banking system and with our unexcelled financial strength, we nevertheless came to the brink of a collapse, had to resort to heroic action to prevent a panic, and were not able to avert a period of violent disorganization followed by severe liquidation and what appears to be a business depression. Is this unavoidable? Is it necessary for this country to go through periods of reckless exuberance, accompanied by enormous credit expansion and by fantastic levels of money rates that profoundly disturb the financial and business structure not only here but all over the world? And to have these periods culminate in abrupt reversals, violent liquidation, and a feeling of discouragement and depression? If all this is inevitable, it is very regrettable, for the cost of these excesses is borne throughout the land, with echoes across the ocean, in languishing enterprise, in unemployment, and in general depression.

We are no longer an isolated young country, with unlimited resources, but with no important influence on world affairs. On the contrary, we are in the very center of the world picture and our prosperity or depression is a matter of grave concern throughout the world. We have two-fifths of the world's stock of monetary gold, we have financial claims on the rest of the world larger than any nation ever had, and we have a market for equities in enterprises, which for breadth, volume of operations, as well as violence of movement has no equal in the world.

As bankers, we cannot but feel the heavy responsibility which this preeminence places on our shoulders. I am a banker by profession. For years I was a commercial banker, for a decade I was a reserve banker in an agricultural community, and now for two years and a half I have been connected with the central supervisory and coordinating body of our banking system. In short, I am no outsider, but one of you, and I should not invite your attention to matters that I myself, as a banker, would not care to consider, nor suggest any course of action that I myself, were I a commercial banker, would not care to follow.

One weakness in our banking structure arises, paradoxically enough, from its very strength. Because we are strong and have great resources, because we have ample gold reserves, and because we have a Federal reserve system that stands ready to help us in emergencies, we are a little inclined to depend on our ultimate power to pull ourselves out of difficulties, and not to exert our utmost efforts to avoid these difficulties. Prior to the establishment of the Federal reserve system the great metropolitan banks were the last resort of the country's banking system; on them rested the ultimate responsibility for avoiding catastrophe, and though these banks were not always able to avoid it, they were never entirely free from the feeling that it was their duty to so conduct their own affairs as not to endanger the financial fabric of the country. I fear that to some extent this feeling of joint responsibility has relaxed as the result in part of confidence that the Federal reserve system is ready to stand by in the hour of need. The banks still feel the responsibility to their stockholders and to their depositors, but when it comes to responsibility to the country at large there is a tendency to let George do it. And yet I am convinced that to an increasing, rather than a diminishing, extent the great key banks have a general

public responsibility, less direct but no less binding than their duty to their own depositors and proprietors.

A bank may know that its security loans are perfectly safe and can be liquidated at any time, and yet it may recognize that too rapid growth in these loans endangers the stability of the nation's business. The bank itself may not be extending loans to the market for its own account, but it may be the agent for correspondents, banks and others, who may be pouring funds in dangerous volume into the market. A bank may not be indebted to the reserve bank except occasionally and for short periods at a time, but it may be a purchaser of Federal funds from other banks, and may be aware that in the aggregate there is a diversion of reserve bank credit to speculative uses. Let such a bank remember that brokers' loans, and security loans in general, are safe only because there is an instant market for the collateral, that large sales of the collateral, though they may not impair the solvency of a particular bank, result in a drop in the value of the collateral back of more than one-half of the bank credit outstanding in this country, and that there is no telling when such a drop may terminate and what catastrophe may follow in its wake. Let such a bank remember also that the resources of the Federal reserve system are not inexhaustible; that another three weeks like those that occurred last autumn may come at a time when these resources will be more nearly used up, and that absolute security and confidence can be obtained only by so conducting the financial affairs of the nation as to prevent violent expansions and contractions rather than merely to alleviate their consequences. One should not neglect to build a fire-proof structure, nor to take precautions against careless handling

of inflammable material merely because one has ample fire insurance and effective fire-fighting apparatus. One should not expose oneself and one's neighbors to the dangers of a virulent bacillus simply because one has a trusty antitoxin.

In practical and concrete language this means that we bankers have a responsibility beyond our own balance sheets for the general course of events; that we must look beyond the safety of the collateral offered us for a loan to the safety of the aggregate volume of collateral that we know is being offered for loans at all the banks; that when we see an unhealthy development getting under way we must not only protect our own immediate institution, but must take a broader view and act with reference to the interests of the entire community. And this is not philanthropy, nor even public spirit, though we can well afford to cultivate a public spirit, but merely enlightened self-interest. When a collapse occurs we all suffer in loss of business, even though we may not have to write off large losses on account of bad loans. The banker profits from general prosperity and suffers from general depression, and he can, therefore, reconcile a course of action taken with a view to the preservation of general business stability with the most hard-boiled attitude toward life, that some of us like to boast of in public.

In other countries, where banking development has been longer, and banking concentration has proceeded farther, certain methods of control have been developed. A customer in England is not granted unlimited credit on the basis of security offered as collateral; he is granted a line of credit in accordance with his credit standing and the requirements of his business,

and he cannot easily exceed that line no matter how much collateral he may be able to present. I am not prepared to recommend to you this or any other specific course of action, but I do feel justified in calling your attention to our joint responsibilities and to suggest that what we need is cooperative action in the development of sound banking tradition, which alone will give assurance to the country of a lasting stability of its financial organization.

The Federal Reserve System does not consist entirely of a Board at Washington and twelve regional Banks. It consists of these and the member banks. Its greatest success depends upon the cooperation of all these units and upon the understanding and sympathetic support of non-member banks. The system rests primarily upon cooperation. Its most far-seeing and important policies can be largely nullified by lack of cooperation. Its practices and judgment in matters that arise from time to time can best be coordinated by the counsel and support of its constituent elements, on the basis not of banker thought alone, but also the combined judgment of the skilled elements of the entire business community. As the system offers cooperation, so, too, does it seek cooperation. From bankers it seeks and requires cooperation in unstinted measure.

Early in my statement, I said that I believed you would not interpret my remarks as lecturing or sermonizing, and I am confident that you have not so interpreted them. But why should I deliver this kind of talk to you at this time? Simply because I believe that when our banking machinery develops faults, they can be corrected from within the profession far better than from without, and it is the duty of the profession to correct them.

In conclusion, I renew my pledge of cooperation, confident of the generous support of my associates, to all professional developments, sponsored

by the American Bankers Association, that will elevate the standards of banking, contribute to the self regulation of our principal credit agencies, prevent widespread abuses of credit, assist in stabilizing the productive and distributive processes of American business, and otherwise further the general welfare of business in the interest of the public which we, especially, as men in banking institutions must seek to serve.